

CORRECTED FISCAL NOTE

HB 64 – SB 463

March 12, 2007

SUMMARY OF BILL: Exempts the retail sale of hybrid vehicles from state and local sales tax for ten years, beginning with FY07-08 and ending with FY16-17.

ESTIMATED FISCAL IMPACT:

On February 8, 2007, we issued a fiscal note for this bill indicating a *decrease to state revenues exceeding \$6,600,000 per year through FY16-17 and a decrease to local government revenues exceeding \$500,000 per year through FY16-17*. Based on new information, the estimated fiscal impact is as follows:

(CORRECTED)

Decrease State Revenues:

\$6,608,000 per year through FY16-17

Decrease Local Govt. Revenues:

\$505,000 per year through FY16-17

Assumptions:

- This act shall take effect on July 1, 2007 and shall expire at midnight on June 30, 2017.
- J.D. Power and Associates projected sales of hybrid and zero-emission vehicles to be 260,000 units in 2006.
- “Hybrid” means a vehicle that operates on a mixed system of a gasoline or diesel engine, as well as a battery-powered electric motor.
- 80% of the estimated sales from J.D. Power and Associates meet eligible definition of “hybrid” vehicle.
- 208,000 hybrid vehicle sales nationally in 2006.
- 10% annual growth.
- 228,800 hybrid vehicle sales nationally in FY07-08.
- Based from U.S. Census Bureau population data, Tennessee makes up 2% of national population.
- Tennessee has 2% share of national hybrid vehicle market.
- Estimated sales in Tennessee are 4,576 vehicles.

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- Average price of vehicle is \$20,000.
- Estimated tax base is \$91,520,000.
- State sales tax rate of 7% of retail sales price.
- Single article state tax of 2.75% for amount above \$1,600 and below \$3,200.
- Average local option tax cap is \$44.
- Estimated tax collection for 7% sales tax is \$6,406,400 ($\$91,520,000 \times 7\% = \$6,406,400$).
- Estimated tax for 2.75% single article tax is \$201,344 ($\$1,600 \times 4,576 \text{ units} \times 2.75\% = \$201,344$).
- The net recurring decrease to state revenues is estimated to be \$6,608,000 ($\$6,406,400 + \$201,344 = \$6,607,744$).
- Decrease in local government revenues from the local option sales tax exemption is estimated to be \$201,344 ($4,576 \text{ vehicles} \times \$44 \text{ tax cap} = \$201,344$).
- Local governments receive a 4.5925% share of state sales tax revenue.
- The decrease to local government revenues from reduced state-shared sales tax revenue is estimated to be \$303,472 ($\$6,608,000 \times 4.5925\% = \$303,472$).
- The net recurring decrease to local government revenues is estimated to be \$505,000 ($\$201,344 \text{ from local tax exemption} + \$303,472 \text{ from reduced state-shared revenue} = \$504,816$).
- State and local governments will forgo additional sales tax revenue in the future due to growing demand for hybrid vehicles.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director